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RUEHBUL/AMEMBASSY KABUL PRIORITY 0648  
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RHEFDIA/DIA WASHINGTON DC//DHO-2/REA/NMJIC-J2// PRIORITY  
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY  
RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY  
RHEHNSC/NSC WASHDC PRIORITY  
RUEKJCS/JOINT STAFF WASHDC PRIORITY  
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C O N F I D E N T I A L SECTION 01 OF 03 ASHGABAT 000259

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SUBJECT: PRESIDENT BERDIMUHAMMEDOV RECEPTIVE TO PIPELINE  
DIVERSIFICATION

REF: ASHGABAT 199

Classified By: Charge d'Affaires, a.i. Jennifer L. Brush for reasons 1.  
4 (B) and (D).

SUMMARY

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1. (C) President of Turkmenistan Gurbanguly Berdimuhammedov showed sincere interest in Principal Deputy Assistant Secretary Steven Mann's detailed March 5 presentation of

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alternative paths to developing the country's energy sector. In the context of stressing his concern for development that benefits his country and the need to review PDAS Mann's points with his own advisors, Berdimuhammedov was generally open to suggestions that Turkmenistan seek expertise from U.S. and Western energy sector companies and should attract foreign investment. Berdimuhammedov was also favorable to the idea of talking to Azerbaijan in order to resolve the issue of Caspian Sea delineation. Although the meeting focused on energy issues, PDAS Mann presented U.S. support for Turkmenistan in this field within the broader context of seeing genuine political, economic, and social reform. END SUMMARY

OPEN EARS TO ENERGY SECTOR DEVELOPMENT; EXPORT DIVERSIFICATION

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2. (C) President Berdimuhammedov opened his March 5 meeting with Mann by welcoming the latter's detailed analysis of Turkmenistan's energy resources and their prospects for development, extraction and export. During the meeting, Berdimuhammedov and his Deputy Chairman for Foreign Affairs Rashit Meredov listened with interest and accepted several handouts detailing estimates of future prospects for Turkmenistan's gas and oil exports, given various investment scenarios. Mann stressed that the overarching U.S. interest in Turkmenistan's energy sector development was to see that the country maintained its independence and sovereignty through multiple outlets of its energy exports.

13. (C) In his overview, Mann first presented the vast potential of Turkmenistan's gas and oil reserves, as developed by USDOC expert Paul Hueper. Mann briefed on the recent IEA gas conference in Paris and the excellent prospects for European demand and then provided a frank discussion of the context in which Russia's Gazprom held a virtual monopoly over gas exports from Turkmenistan, limiting the country's options and profits. He also pointed to the Primorsk pipeline and Sakhalin-2 as examples of the unconstrained monopoly power of Transneft and Gazprom. As a result of this context, pipeline diversification brought major benefits in order to have more than one way to reach world markets and reduce Turkmenistan's dependence on Russian monopolies. Mann also noted that future extractions of natural gas in Turkmenistan would require world-class technology. In comparing high, medium and current levels of investment, Mann noted that current levels would ultimately result in a fall in overall production due to these concerns.

A favorable investment climate therefore was necessary in order to attract a world-class level of development. He also described the role of American and Western energy companies in other parts of the region as reliable partners who invested in infrastructure and education in the course of their partnership, noting that these benefits would coincide with many of Berdimuhammedov's recently initiated reforms in education.

14. (C) PDAS Mann also raised the issue of Caspian Sea delimitation as an unresolved issue which still hindered development of the energy sector. He offered U.S. support for efforts to find agreement with Azerbaijan on this issue. He suggested that an agreement would open the way for the "Serdar" field to produce no less than 500,000 barrels per day of potential exports.

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15. (C) Mann stressed that in order to be successful, Turkmenistan would have to rid itself of a Soviet, state mentality with regard to its economy and energy sector. The TCP project of 1997-2000 failed because of this mentality. He stressed at various points that the true test of reliability as a trading partner was not government pronouncements but whether or not private companies would actually take the risk to invest and construct pipelines or extract resources.

POSITIVE BUT CAUTIOUS RESPONSE

16. (C) Berdimuhammedov appeared to be impressed by the presentation but said that Turkmenistan's data differed from that Mann presented. He believed the level of reserves was considerably higher. He stressed his need to review the subject and Mann's provided figures with his own advisors and government. However, he expressed an openness to discussing the issue in the future with U.S. experts and a general willingness to cooperate in the future.

17. (C) The president also placed emphasis on the fact that his government was still new and there was still a need to review policy before taking major decisions. He noted his interest in foreign investment and the additional benefits that could come from education and exchange with U.S. companies or experts. All the while, he stressed his role as president to make decisions for the benefit of his people. He stated in an even tone that Turkmenistan would continue the policy line on energy established by Turkmenbashi, including existing contracts with Russia. Mann stressed that it was not the U.S. desire to disturb any existing arrangements but to focus on the future; the U.S. respects Turkmenistan's continuing relationships with Russia and China.

FIRST STEP ON RESOLVING THE CASPIAN DELIMITATION?

¶18. (C) Berdimuhammedov clearly welcomed Mann's suggestion of U.S. support in trying to resolve the disputed delineation of its Caspian Sea border with Azerbaijan and was open to the prospect of experts' talks to further advance the possibilities for tapping into the region's energy reserves. He looked forward to discussing the issue personally with President Aliyev and said he had a positive view of Aliyev.

¶19. (C) However, Berdimuhammedov was careful to flag that commercial disputes might arise in future energy development and that Turkmenistan would have to defend its interests vigorously. Mann accepted that and advised that Turkmenistan had not been getting the full benefit of its energy resources, thanks to the lack of a pricing formula for natural gas sales. Mann attempted to ease the president's concerns by noting that the U.S. interest in pipeline diversification was in preserving the independence and sovereignty of the region's countries, first and foremost by decreasing their reliance on the Russian Gazprom monopoly. What Turkmenistan needs above all for hydrocarbon development is to attract the serious interest of major firms. The small concerns that operate in Turkmenistan now -- as well as the Russians and Chinese -- are not up to the major tasks and Turkmenistan must take steps to attract world-class energy firms.

BROADER CONTEXT OF BILATERAL RELATIONSHIP: REFORM NEEDED

¶10. (C) Towards the end of the meeting, Mann also noted the increased Washington interest in Turkmenistan, due partly to Berdimuhammedov's statements and initial steps towards reform. Mann noted that cooperation between the two countries depended also on improvement in the political

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relationship. This has consequences for energy as well as for other issues. Foreign firms consider Turkmenistan a bad risk, given Bidas' and Sheraton's experience, and until rule of law and a stable investment climate are more firmly established, it will be a hard sell to bring those firms in.

COMMENT

¶11. (C) Berdimuhammedov's brief comments on preserving the status quo appeared to reflect necessary lip service as well as a wariness that the U.S. would be urging conflict with Russia. That topic disposed of, the President followed the discussion in detail and with real interest and gave an unequivocal green light to develop the government-to-government relationship on energy. The discussion of Caspian delimitation was notably positive both for the lack of Niyazovist bluster as well as for the quietly reasonable willingness to engage with Azerbaijan. His tentative but positive response to foreign investment and export diversification in the energy sector probably reflects his lack of expertise in the field and his still-forming energy policy. It's clear that he has little familiarity with the way the private sector works at a serious level. Still, his comments throughout the meeting seemed to reflect a sincere interest in examining and addressing the range of issues we raised. The president's willingness to talk further on the topic, his welcoming words on foreign investment and a stated readiness to work with Azerbaijan all represent positive signs for future energy development in Turkmenistan. END COMMENT  
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